

Report
of the
Examination of
Bristol Town Insurance Company
Sun Prairie, WI
As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

August 20, 2004

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2003, of the affairs and financial condition of:

BRISTOL TOWN INSURANCE COMPANY
Sun Prairie, WI

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of this company was made in 1999 as of
December 31, 1998. The current examination covered the intervening time period ending
December 31, 2003, and included a review of such subsequent transactions deemed essential to
complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the
company's operations. Special attention was given to the action taken by the company to satisfy
the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on
April 15, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of
the company was The Farmers Mutual Fire Insurance Company of the Town of Bristol.
Subsequent amendments to the company's articles and bylaws changed the company's name to
that presently used.

During the period under examination, there were no amendments to the articles of incorporation or bylaws.

The company is currently licensed to write property, including windstorm and hail and nonproperty insurance. The company is currently licensed to write business in the following counties:

Columbia
Dane
Dodge
Jefferson

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one and three years with premiums payable on the advance premium basis. The company charges an annual policy fee of \$20 for each policy.

Business of the company is acquired through eight agents, four of whom are directors of the company. Agents are presently compensated for their services as follows:

| Type of Policy | Compensation |
|-----------------------|---------------------|
| All Policies | 15% |

A committee that is appointed annually by the board of directors adjusts the losses of the company. The directors (adjusters) are paid \$45.00, plus mileage of \$0.30 per mile, for each day of adjusting.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of seven members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

| Name | Principal Occupation | Residence | Expiry |
|--------------------|--------------------------------|------------------|---------------|
| John Blaska | Farmer | Marshall, WI | 2006 |
| Bruce Krebs | Farmer and Secretary/Treasurer | Sun Prairie, WI | 2006 |
| Willis Damm | Retired, farmer | Columbus, WI | 2004 |
| Katherine Krebs | Assistant Secretary | Sun Prairie, WI | 2004 |
| Gilbert Kalscheuer | Retired | Deforest, WI | 2005 |
| Marvin McCoy | Farmer | Sun Prairie, WI | 2005 |
| Richard Rademacher | Semi-retired farmer | Sun Prairie, WI | 2005 |

Members of the board currently receive \$45 for each half-day and \$80 for each full-day meeting attended and \$0.30 per mile for travel expenses.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

| Name | Office | 2003 Salary |
|--------------------|---------------------|--------------------|
| Willis Damm | President | \$ 350 |
| Gilbert Kalscheuer | Vice President | 300 |
| Bruce Krebs | Secretary-Treasurer | 6,600 |

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
 Willis Damm
 Gilbert Kalscheuer
 Bruce Krebs

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

| Year | Net Premiums Earned | Policies In Force | Net Income | Admitted Assets | Policyholders' Surplus |
|------|---------------------|-------------------|------------|-----------------|------------------------|
| 2003 | \$69,983 | 241 | \$ (5,989) | \$900,106 | \$846,904 |
| 2002 | 65,322 | 249 | 7,571 | 911,302 | 861,417 |
| 2001 | 65,886 | 260 | (21,857) | 923,359 | 870,614 |
| 2000 | 71,697 | 278 | 7,307 | 950,326 | 897,789 |
| 1999 | 85,634 | 303 | (12,872) | 929,633 | 874,922 |
| 1998 | 86,940 | 320 | (8,798) | 946,669 | 886,838 |

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

| Year | Gross Premiums Written | Net Premiums Written | Ending Surplus | Writings Net | Ratios Gross |
|------|------------------------|----------------------|----------------|--------------|--------------|
| 2003 | \$178,826 | \$71,192 | \$846,904 | 21% | 8% |
| 2002 | 172,024 | 66,750 | 861,417 | 20 | 8 |
| 2001 | 168,056 | 65,169 | 870,614 | 19 | 7 |
| 2000 | 162,418 | 68,635 | 897,789 | 18 | 8 |
| 1999 | 168,821 | 77,992 | 874,922 | 19 | 9 |
| 1998 | 165,874 | 85,153 | 886,838 | 19 | 10 |

For the same period, the company's operating ratios were as follows:

| Year | Net Losses and LAE Incurred | Other Underwriting Expenses Incurred | Net Earned Premiums | Loss Ratio | Expense Ratio | Composite Ratio |
|------|-----------------------------|--------------------------------------|---------------------|------------|---------------|-----------------|
| 2003 | \$42,243 | \$63,550 | \$69,983 | 60% | 91% | 151% |
| 2002 | 21,065 | 64,018 | 65,322 | 32 | 98 | 130 |
| 2001 | 63,349 | 61,798 | 65,886 | 96 | 98 | 194 |
| 2000 | 42,266 | 64,335 | 71,697 | 59 | 90 | 149 |
| 1999 | 78,888 | 60,723 | 85,634 | 92 | 71 | 163 |
| 1998 | 78,754 | 60,796 | 86,940 | 91 | 69 | 160 |

The company's premium written remained consistent through the years 2001 to 2003, due to rate increases in 2002 and 2003. The high expense ratio for the years 2000 through 2003 is the result of the company's declining policies in-force. Since 1999, policies in-force has declined by 26%.

In years 2003 and 2001, the company experienced a major loss from fire and a limited number of losses due to wind. In 1999, the company reported losses of \$265,000, of which approximately \$229,000 was related to a fire loss. In 1998, two major windstorms resulted in losses that exceeded \$240,000. The company was able to mitigate these losses over the period under examination through reinsurance

In each year under examination, the company reported a net underwriting loss due to losses from windstorms and fires and to high expenses. The company's expense ratio has exceeded 90% of net earned premium in each of the last three years. The examiners noted that net premium written and policies in force have both declined significantly during the period under examination contributing to the increase in expense ratio. The examiners discussed with the company the reasons for the change in policies in force. The company indicated that one of their agents had let some policies expire without renewing. Company agents are currently working to attain new business.

On March 1, 2003, the company increased its rates. By March 1, 2006, the rate increase will be fully implemented which is anticipated to generate an additional \$10,000 in revenue. On September 1, 2002, the company began charging a \$20 annual policy fee to each policy. This annual policy fee is expected to create additional revenue of \$5,000, when policy fees become fully realized September 1, 2005.

Since the prior examination the company has had surplus decrease \$39,934 or 4.7%. Net income was reported in two of the past five years with the exception of 2003, 2001, and 1999, when the company experienced higher losses due to wind and fire.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

| | |
|-------------------------|--|
| Reinsurer: | Wisconsin Reinsurance Corporation |
| Effective date: | January 1, 2003 |
| Termination provisions: | At any January 1 by either party giving 90 days' prior written notice. |

The coverage provided under this treaty is summarized as follows:

| | |
|----------------------|--|
| 1. Type of contract: | Class A – Casualty Quota Share |
| Lines reinsured: | All business classified as Casualty business |
| Company's retention: | The company has no retention on liability (nonproperty) losses |
| Coverage: | <p>100% of any loss, including loss adjustment expenses up to \$1,000,000 per occurrence</p> <p>\$1,000 deductible will be imposed where a raw milk contamination occurs on an insured dairy farm. The reinsurer agrees to waive deductible if the insured dairy farm shows the Company evidence of completion of the Dairy Quality Assurance Program within 12 months prior to the date of the claim.</p> <p>The company will not issue any binder or policy providing limits greater than the following:</p> <ul style="list-style-type: none">a. \$1,000,000 per occurrence, single limit, combined for bodily injury and property damage liabilityb. \$1,000,000 split limits, in any combination of bodily injury and property damage liabilityc. \$5,000 for medical payments, per person; \$25,000 per accident |
| Reinsurance premium: | 100% of premiums written |
| Ceding commission: | 15% of ceded premiums |

2. Type of contract: Class B – First Surplus
Lines reinsured: All property business written by the company

Company's retention: Retained pro rata portion of each risk, plus a 10% annual aggregate deductible on the paid losses and loss adjusting expenses

Company's coverage: When the company's net retention is \$300,000 or more in respect to a risk, the company may cede on a pro rata basis up to \$800,000

When the company's net retention is \$300,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk

Reinsurance premium: Pro rata portion of all premiums corresponding to the amount of each risk ceded

Ceding commission: 15% provisional commission with a standard sliding scale adjustment based on loss experience
Minimum Commission: 15%
Maximum Commission: 35%
3. Type of contract: Class C-1 First Layer Excess of Loss
Lines reinsured: All property business written by the company
Company's retention: \$25,000, plus an annual deductible of \$25,000
Coverage: 100% of any loss including loss adjusting expenses in excess of company retention up to \$75,000 in respect to each and every occurrence

Reinsurance premium: The company shall pay the reinsurer a premium rounded to the nearest \$100 calculated by taking the sum of the four years' losses incurred by the reinsurer divided by the total of the net premiums written for the same period multiplied by the factor of 125%, subject to the following limits.

Minimum rate: 7% of the current net written premium
Maximum rate: 19% of the current net written premium

The current rate for the annual period is 7.78%

,

Current deposit premium is \$7,800, with a minimum of \$6,300
4. Type of contract: Class C-2 Second Layer Excess of Loss
Lines reinsured: All property business written by the company
Company's retention: \$100,000

| | |
|----------------------|---|
| Coverage: | 100% of any loss including loss adjusting expense in excess of company retention up to \$100,000 in respect to each and every occurrence |
| Reinsurance premium: | 6.00% of net premiums written |
| | Current deposit premium is \$6,000, with a minimum of \$4,800 |
| 5. Type of contract: | Class D/E – First Aggregate Stop Loss |
| Lines reinsured: | All business written by the company |
| Company's retention: | Losses, including loss adjustment expenses, up to an amount equal to 80% of net premiums written |
| Coverage: | 100% of losses in excess of the company's retention |
| Reinsurance premium: | A percentage of net premiums written based on the loss experience for the prior eight years subject to the minimum and maximum rates below. Deposit premium of \$6,900. Current minimum deposit premium is \$5,500. |
| | Minimum premium: 7% |
| | Maximum rate: 25% |
| | The current rate for the annual period is 7.0% |

It was noted by the examiners in reviewing the reinsurance contract under section Class C-2 the coverage is \$100,000 in excess of \$200,000, which would leave a \$100,000 gap between the end of the Class C-2 coverage and the beginning of Class B coverage. However, a summary of the coverage provided by the reinsurer for 2003 indicates Class C-2 coverage of \$200,000 in excess of \$100,000, which would eliminate the gap in coverage. It appears that the parties are administering the reinsurance with the higher level of reinsurance coverage and the contract contains a typographical error.

It is recommended that the company provide an amendment to the reinsurance contract to properly reflect the coverage provisions under Class C-2 of the contract.

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Bristol Town Insurance Company
Statement of Assets and Liabilities
As of December 31, 2003

| Assets | Ledger | Nonledger | Not Admitted | Net Admitted |
|--|------------------|------------------|---------------------|---------------------|
| Cash deposited in checking account | \$ 7,829 | \$ | \$ | \$ 7,829 |
| Cash deposited at interest | 550,000 | | | 550,000 |
| Stocks and mutual fund investments | 323,662 | | | 323,662 |
| Premiums, agents' balances and installments: | | | | |
| In course of collection | 351 | | | 351 |
| Deferred and not yet due | 11,855 | | | 11,855 |
| Investment income accrued | | 3,045 | | 3,045 |
| Electronic data processing equipment | 591 | | | 591 |
| Fire dues recoverable | 135 | | | 135 |
| Reinsurance premium recoverable | <u>2,638</u> | <u> </u> | <u> </u> | <u>2,638</u> |
| Totals | <u>\$897,061</u> | <u>\$3,045</u> | <u>\$0</u> | <u>\$900,106</u> |

Bristol Town Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2003

Liabilities and Surplus

| | |
|--|------------------|
| Net unpaid losses | \$ 3,000 |
| Commissions payable | 1,831 |
| Unearned premiums | 48,257 |
| Payroll taxes payable (employer's portion) | <u>114</u> |
| Total Liabilities | 53,202 |
| Policyholders' surplus | <u>846,904</u> |
| Total Liabilities and Surplus | <u>\$900,106</u> |

Bristol Town Insurance Company
Statement of Operations
For the Year 2003

| | | |
|---------------------------------------|---------------|-------------------|
| Net premiums and assessments earned | | \$ 69,983 |
| Deduct: | | |
| Net losses incurred | \$36,783 | |
| Net loss adjustment expenses incurred | 5,460 | |
| Other underwriting expenses incurred | <u>63,550</u> | |
| Total losses and expenses incurred | | <u>105,793</u> |
| Net underwriting gain (loss) | | (35,810) |
| Net investment income: | | |
| Net investment income earned | <u>27,521</u> | |
| Total investment gain (loss) | | 27,521 |
| Other income: | | |
| Miscellaneous Income (Expense) | <u>2,300</u> | |
| Total other income | | <u>2,300</u> |
| Net Income (Loss) | | <u>\$ (5,989)</u> |

Bristol Town Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2003

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

| | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|------------------|------------------|------------------|------------------|------------------|
| Surplus, beginning of year | \$861,147 | \$870,614 | \$897,789 | \$874,922 | \$886,838 |
| Net income | (5,989) | 7,571 | (21,857) | 7,307 | (12,872) |
| Net unrealized capital gains or (losses) | (8,254) | (17,038) | (5,318) | 15,560 | 860 |
| Change in non-admitted assets | _____ | _____ | _____ | _____ | <u>96</u> |
| Surplus, end of year | <u>\$846,904</u> | <u>\$861,147</u> | <u>\$870,614</u> | <u>\$897,789</u> | <u>\$874,922</u> |

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2003, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Disaster Recovery Plan—It is recommended that the company develop a written disaster recovery plan.

Action—Compliance

2. Invested Assets—It is recommended that the company adopt a written investment plan in accordance with s. Ins 6.20 (6) (h), Wis. Adm. Code.

Action—Compliance

3. Unearned Premium—It is recommended that the company properly compute Unearned Premium in compliance with the Town Mutual Annual Statement instructions.

Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith." The examiners' noted from the agency agreements that four agents are also directors with the company. Under the newly enacted legislation, Act 261 for 2003, the following change will become effective April 30, 2006.

Section 612.13 (1m), Wis. Stat., limits participation of agents and other insiders on town mutual boards. If a town mutual insurer has eight or less directors, no more than one director may be an employee or representative of the town mutual. In cases where a town mutual has nine or more directors, the statute prohibits employees and representatives of the town mutual making up a majority of the town mutual board of directors. It is recommended that the company evaluate how it will comply with s. 612.13 (1m), Wis. Stat., which limits the participation of agents and other insiders on town mutual boards, prior to its effective date of April 30, 2006.

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

| Type of Coverage | Coverage Limits |
|--|------------------------|
| Fidelity bond | \$ 50,000 |
| Combined insurance company liability and directors and officer's liability | 1,000,000 |
| Insurance agents errors and omissions | 1,000,000 |
| Business owner's coverage: | |
| Personal property coverage: | |
| Business personal property (replacement) | 25,000 |
| Liability coverage: | |
| General aggregate | 2,000,000 |
| Liability (per occurrence) | 1,000,000 |
| Medical expense (any one person) | 5,000 |

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. All new policies and a sampling of new applications and renewal business are inspected by the secretary/treasurer.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained

4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2003.

The company is not audited by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. The company does not use computers to process its data.

The company purchased a computer in 1998 and purchased another computer in 2003. Due to the size of the company and the limited number of transactions processed, the company has an outside public accounting firm process its data.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

The investments of the company are authorized by the board of directors. It was noted in the review of the company's minutes that the board has approved all investment transactions, and that it has established a written plan for acquiring and holding investments as required by s. Ins 6.20 (6) (h), Wis. Adm. Code.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

| | |
|---|------------------|
| 1. Liabilities plus \$300,000 | \$353,202 |
| 2. Liabilities plus 33% of gross premiums written | 112,215 |
| 3. Liabilities plus 50% of net premiums written | 88,798 |
| 4. Amount required (greater of 1, 2, or 3) | 353,202 |
| 5. Amount of Type 1 investments as of 12/31/2003 | <u>647,840</u> |
| 6. Excess or (deficiency) | <u>\$294,638</u> |

The company has sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company's investments are all in compliance with the investment rule.

ASSETS

Cash and Invested Cash

\$557,829

The above asset is comprised of the following types of cash items:

| | |
|---|------------------|
| Cash deposited in banks-checking accounts | \$ 7,829 |
| Cash deposited in banks at interest | <u>550,000</u> |
| Total | <u>\$557,829</u> |

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained at a local bank. Verification of checking account balance was made by obtaining confirmation directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of twenty-two deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2003 totaled \$20,640 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.09% to 6.40%. Accrued interest on cash deposits totaled \$3,045 at year-end.

Stocks and Mutual Fund Investments

\$323,662

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2003. Stocks owned by the company are located in company's office.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2003 on stocks and mutual funds amounted to \$12,450 and were traced to cash receipts records.

Premiums, Agents' Balances in Course of Collection **\$351**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **\$11,855**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Due and Accrued **\$3,045**

Interest due and accrued on the various assets of the company at December 31, 2003, consists of the following:

| | |
|------------------|----------------|
| Cash at Interest | <u>\$3,045</u> |
|------------------|----------------|

A review of investment income received subsequent to year-end verified the accuracy of this asset.

Electronic Data Processing Equipment **\$591**

The above amount represents the company's investment in electronic data processing equipment at December 31, 2003. The amount reported is net of accumulated depreciation and excludes software. Electronic data processing equipment depreciation is calculated using an accelerated depreciation method.

Fire Dues Recoverable **\$135**

This asset represents the amount overpaid to the State of Wisconsin for 2003 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Reinsurance Premium Recoverable **\$2,638**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2003. The examiners verified the balance directly with the reinsurer.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$3,000

This liability represents losses incurred on or prior to December 31, 2003, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2003, with incurred dates in 2003 and prior years. To the actual paid loss figure was added an estimated amount for 2003 and prior losses remaining unpaid at the examination date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

| | Company Estimate | Examiners' Development | Difference |
|---|-----------------------------|-----------------------------------|-------------------|
| Incurred but unpaid losses | \$238,601 | \$237,245 | \$1,356 |
| Less: Reinsurance recoverable on unpaid losses | <u>235,601</u> | <u>235,601</u> | <u>0</u> |
| Net Unpaid Losses | <u>\$ 3,000</u> | <u>\$ 1,644</u> | <u>\$1,356</u> |

The company's reserves were reasonable and redundant, so no adjustment was made to surplus by the examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Commissions Payable

\$1,831

This liability represents the commission's payable to company agents at December 31, 2003. A review of accounting records, supporting documents, and subsequent cash disbursements verified the annual statement amount.

Unearned Premiums**\$48,257**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established as follows:

The company takes an inventory of premiums in force at year-end by reviewing the policy register and files and totals the premium amounts for annual and three-year premiums. The company then applies percentages to these amounts consistent with s. Ins 13.08 (3), Wis. Adm. Code. The unearned premium amount is then adjusted for reinsurance ceded.

Payroll Taxes Payable**\$114**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2003, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

V. CONCLUSION

Bristol Town Insurance Company reported admitted assets of \$900,106, liabilities of \$53,202, and surplus of \$846,904 at December 31, 2003. Since the prior examination the company has had surplus decrease \$39,934 or 4.7%. Net income was reported in two of the past five years with the exception of 2003, 2001, and 1999, when the company experienced higher losses due to wind and fire.

The company's premium written remained consistent through the years 2001 to 2003, due to rate increases in 2002 and 2003. The high expense ratio for the years 2000 through 2003 is the result of the company's declining policies in-force. Since 1999, policies in-force has declined by 26%.

In each year under examination, the company reported a net underwriting loss due to losses from windstorms and fires and to high expenses. The company's expense ratio has exceeded 90% of net earned premium in each of the last three years. The examiners noted that net premium written and policies in force have both declined significantly during the period under examination contributing to the increase in expense ratio. The examiners discussed with the company the reasons for the change in policies in force. The company indicated that one of their agents had let some policies expire without renewing. Company agents are currently working to attain new business.

On March 1, 2003, the company increased its rates. By March 1, 2006, the rate increase will be fully implemented which is anticipated to generate an additional \$10,000 in revenue. On September 1, 2002, the company began charging a \$20 annual policy fee to each policy. This annual policy fee is expected to create additional revenue of \$5,000, when policy fees become fully realized September 1, 2005.

The examination determined that the company had complied with three prior examination recommendations. Two recommendations were made as a result of this current examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 8 - Reinsurance—It is recommended that the company provide an amendment to the reinsurance contract to properly reflect the coverage provisions under Class C-2 of the contract.
2. Page 16 - Corporate Records—It is recommended that the company evaluate how it will comply with s. 612.13 (1m), Wis. Stat., which limits the participation of agents and other insiders on town mutual boards, prior to its effective date of April 30, 2006.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Karl Albert of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

DuWayne A Kottwitz
Examiner-in-Charge